

System House

The monthly review of the financial performance of the UK software and computing services industry

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Life in the new millennium

As regular readers will know, we revise our actual UK market sizing figures in April each year, upon production of the annual Holway Report, and then revise our rolling 5 year projections in November, prior to the publication of our European Report. This year we have had to wrestle with projections for our industry for 2001...and beyond.

But let's start with the 1997-2000 period.

We have revised our projections for growth in the period upwards. Indeed we now project the UK SCSi sector in 2000 to be worth some £22 billion; that's a fifth - or £4 billion - higher than last year's estimate. We have revised our estimates upwards for:

- **outsourcing**, to take into account of the continued mega contracts awarded in 1997, like the £400m Cap Gemini/British Steel deal this month (see p12). We now estimate the outsourcing market (incl. AM) will be worth £6 billion in 2000.
- **internet related value added services**, to take into account the explosive growth in on-line information services and e-commerce. This segment was worth just £250m in 1996 but will have increased over five fold by 2000.

- **IT training**. The industry-backed submission to the DTI/Action 2000 this month calling for "the once off addition of up to 10,000 additional IT staff". Initiatives like that announced by CRT this month to train 2000 new IT recruits will boost this segment to around £1 billion in 2000.

But the major reason

for the substantial increase is all activities which are people/fee related - in particular the IT agency market, IT consultancy and IT development. It's not that we believe

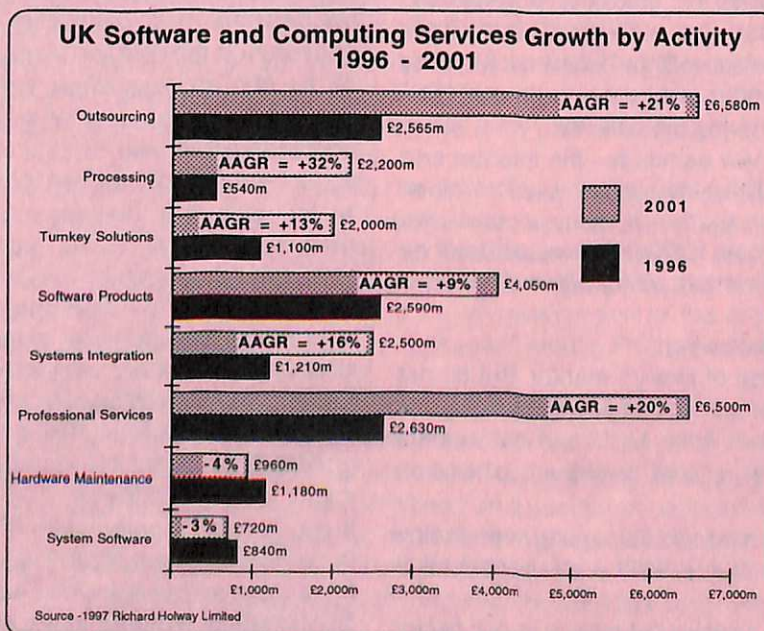
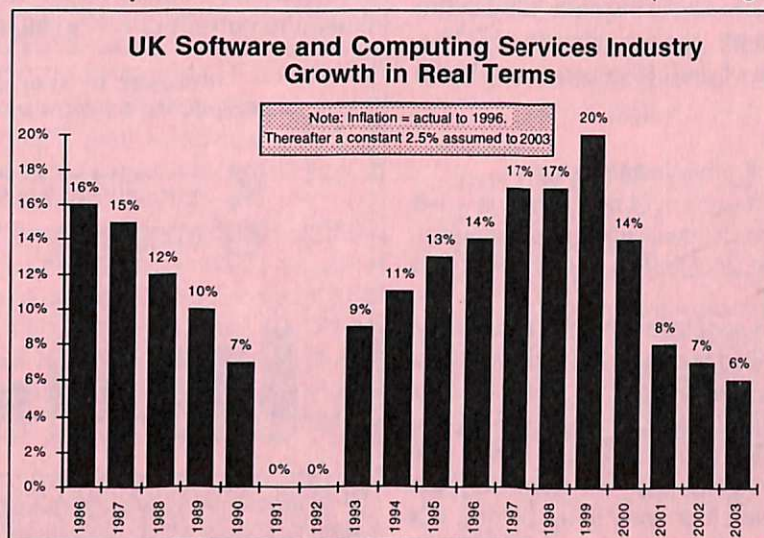
that we got the estimates for the *number* of IT staff wrong. It's just that for the decade so far (including 1996) fee rate increases have varied between one and two times inflation. *Not any more!* Contractors with certain (indeed an increasing number of) IT skills are currently able to demand fee increases of 20%. Most of the organisations we have talked to would accept average fee increases to be c10%

at present - that's four times inflation. Contractor fee rates are increasingly working their way into salary rates for permanent staff. *But you ain't seen nothing yet* as we reckon that no more than 10% of SCSi revenue in 1997 could possibly be regarded as "Y2000-related". This just means that the work required will have to be undertaken in an ever decreasing timescale. Already we have over

50,000 IT jobs advertised in Q397 (Source - SSP/Computer Weekly) - up a staggering 50% on last year - and the Cap Gemini Millennium Index forecasting that demand will exceed supply early in 1998 (see last month's review). Pressure is clearly rising to dangerous levels. Fees to customers are, and will clearly continue, to have to rise significantly. We have now assumed fee rates will increase by 8% in 1997 will rise to c20% by 2000. This is about 8-times the assumed rate of inflation. The effect of this is quite dramatic - for the professional services sector alone, it pushes up projections for Y2000 by 40% from £5 billion to £7 billion.

All this means that the outlook for revenue growth in the UK SCSi sector is indeed set fair in the short term.

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Continued from page one

But what happens post Y2000?

Perhaps we should be flattered that increasingly our views cause controversy. For the last two years we have been predicting a down turn in growth rates post Y2000. It seems to us that as many agree as disagree. Rob Wirszycz, Director General of the CSSA, told us that he had taken every opportunity to ask people their views on the matter of a downturn post-2000. "Most believe there to be plenty of mileage in the market what with deferred projects and the like". Wirszycz thinks "inevitably there seems likely to be a slowdown - we have reached bottlenecks in terms of capacity and, no matter what happens to raise the skills supply pool, it will not have a material impact for some years. There is though, a great swathe of new business opportunities coming through, what with the Internet and electronic commerce".

But, we have NEVER forecast a recession - i.e. negative growth. Indeed the chart (p1) shows growth in real terms - i.e. after inflation of 2.5% - of 8% in 2001. That is nothing like the down turn our industry saw in the early 1990s. The problem is all relative - when you are growing at 20%+ p.a., a reduction to growth of just 8% does seem like a severe recession!

Why the down turn?

The main reasons we see for the downturn are:

- Y2000 brings forward introduction of new systems - just like that which occurred pre-decimalisation and Big Bang. Future budgets are raided, indigestion sets in, a rest is required!

- demand fuels many more people to enter the IT industry. Demand has roughly equalled supply in the last five years - hence relatively low wage inflation in our industry. Returning to similar levels of demand could expose an oversupply. Any sharp downturn multiplies the effect, with fee rates plummeting and redundancies rife. (After 30 years in our industry we have seen this many times before. It is highly unpleasant...particularly when it happens to you). The IT agency sector will be hit very hard...just like in the last downturn.

- increasingly we believe that our industry will be (some would claim unfairly) blamed for the mess post-Y2000. Those who think they can just walk away from their customers in those circumstances should think on. Clearing up the mess will cost mega money even for those SCSi companies capable of surviving the disaster.

- of course, there will be new demands - the Internet and e-commerce in particular. But, although we would not claim to be a global economist, there are many around who forecast world recession post Y2000. Our industry will be affected by this general downturn along with the rest.

The lessons?

We strongly suggest the following;

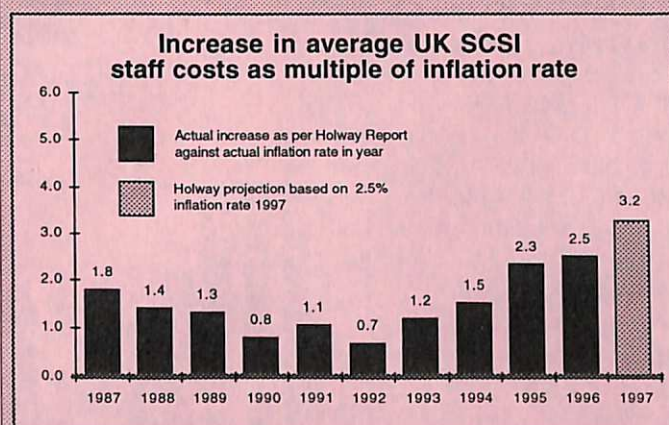
- of course, take advantage of today's market. But do not build up fixed costs (e.g. property) that you cannot dispose of quickly come the downturn. Anite, MDIS and many others are still paying the price in fixed overhead expansion incurred in the last boom.

- take a hard nosed approach to increasing fees in line with costs to your customers. It will be a buyers market post Y2000.

- we have long said that relative valuations in our sector peaked in 1996. If you have the opportunity to realise part of the investment you have made in building your company - think about doing it NOW.

How unprecedented wage inflation could knock profits and valuations

Our page 1 article highlights the major effect that fee rate increases over and above inflation, can make on the growth predictions for our industry. Readers might, therefore be interested in the following. Each year in the Holway Report we analyse the average staff costs for the 200,000 staff employed by the 2,000+ SCSi companies included in our database. Inflation, which neared 10% in the late 1980s, clearly made a significant effect on staff costs. If you strip our inflation, you will see that staff costs were rising by no more than twice the rate of inflation in the last boom period of the mid 1980s. But this slumped to < than inflation in the major slowdown which hit our industry in the early 1990s. Since then wage growth has edged up again; exceeding twice the rate of inflation in 1995 and 1996. But it seems highly likely that when we compile the 1998 Holway Report, staff costs will have risen by 8-10% in 1997. In other words for the first time in the last ten years, staff costs will rise by in excess of THREE times the current rate of inflation.



With inflation set to continue at 2.5%-3.0% according to most forecasters, IF the current contractor rate increases of 20% reported by MSB International work their way into average staff costs (which they have a nasty habit of doing), we could face the almost unprecedented situation where staff costs are rising at >6-times inflation.

We happen to believe that this will put intolerable pressures on the cost line of many SCSi companies. Some will be able to pass these extra costs onto clients. But many of the outsourcers have long term SLAs where price increases are linked to indices much closer to inflation which therefore do not reflect these high cost increases. In the past, any discrepancy could be made up by efficiency improvements. Improving efficiency by 2% is one thing - increasing it by 18% is another!

That is one of the reasons why we believe that the unprecedented number of profits warnings we have already seen in 1997 will increase in the next few years. The very high 40+ P/E's currently enjoyed by many of these companies are predicated on continued high earnings growth. If this is put in jeopardy, such ratings - and share prices - will inevitably fall.

If you put that together with the warnings of a slowdown in our industry post-Y2000, you can understand why we have long believed that the peak of valuations in the UK SCSi industry were reached in 1996 and that we will see reductions from now on.

Whether these will be gradual or whether we will witness a melt-down remains to be seen.

More news from the IT staff agencies

Last month we ran a major feature on the UK IT staff agency market. As the following items show, it is one of the most corporately active sectors of the market at present.

Good results from Delphi

As we reported last month, **Delphi** will become the latest UK-NASDAQer in mid-Dec. So we (and they) will have to get used to quarterly results. Q397 results show revenue up from £51.7m to £70.7m with PBT up from £2.9m to £3.8m on the comparative quarter last year. A higher tax charge and more shares in issue limited EPS growth to just 13%. Total revenue for the FY to date is up 34% at £204m with PBT up 25% to £10.8m.

UK revenues increased by 24% to £128.2m in the first 9 months with an excellent (and increased) margin of 7.8% in the period. US revenues almost doubled and now represent 31% of the total. But much of the increase was due to the acquisition of **Alpine** in Q4 1996. Delphi remains "confident about its prospects both for the rest of the year and in the future".

CRT launches Career IT

CRT Group has launched an innovative IT recruitment and training programme, **Career IT**, designed to recruit between 1000 and 2000 new IT staff. Initial costs are quite low at c£400K, but the potential gross cost to CRT could be as high as £70m over the next five years.

The scheme has been welcomed by the CSSA and the DTI and might make some contribution towards resolving some of the IT staff shortages expected for the Y2000 and EMU problems. Public response after CEO Karl Chapman was interviewed on Radio 5 was huge. One of the main differences with the scheme is the fact that in theory no degree or other educational qualification is needed - just aptitude.

Seems a jolly good idea to us - with these conditions even a non graduate like Richard Holway might once again have

stood a chance of following a career in IT. However some of CRT's rivals (**Azlan**, **Interskill**, **ilion**) have expressed doubts about using people without prior IT experience pointing out the time scale of training proposed.

ICL enlists Dad's Army to beat millennium bug

So said the headline in the Times 3rd November. ICL is assembling a team of retired programmers to work on the Y2000 problems. They are contacting more than 300, the bulk of whom are over 60. All are fluent in mysterious old-style computer languages. Mind you, don't forget that these self same programmers are *responsible* for much of today's problems! Not content with this, ICL is also contacting mothers who left on maternity leave never to return. (Mind you we thought FI Group had cornered this market!)

Parity buys into the US

In the month that has seen **Delphi's** IPO on NASDAQ, **Parity** is following in Delphi's footsteps by acquiring in the US. Parity is buying US **TelTech International** and **Personnel Solutions** for \$36.5m plus \$5m deferred. TelTech is a consultancy and PSI is a recruitment agency. Combined revenues was \$43.3m with a profit of \$2.3m. Parity is raising £26.9m from a 1-for-8 rights issue at 535p to fund the acquisition. Other acquisitions in the US are rumoured.

...but the US fights back

US **AccuStaff Inc.** has acquired IT staff agency **Hunterskil Howard** from its parent **Wolseley** for £45m plus a further £10m debt. Hunterskil has 1997 revenues of \$115m. Hunterskil were one of the UK's Top 10 staff agency companies in 1996 but were increasingly non-core for Wolseley. AccuStaff is listed on NYSE with a capitalisation of c\$3 billion and an expected IT revenues of over \$1 billion in 1998; making it the fifth largest US based IT consulting services company. A name change is now possible to include the "Modis" brand name used by AccuStaff.

Solid results from Rebus

Rebus was demerged from insurance broker CE Heath in Apr. 96 and floated on the main market at the equivalent of 88p - giving a valuation of £66m. Rebus is known better by its various subsidiaries - **Peterborough Software** (HR systems), **Datasure** (insurance broking), **Sceptre** (payroll) and **Saffron** (housing management). It also has two new smaller subsidiaries, **Media Broadcast Systems** and **Mobile Phone Directory**.

Results for the six months ending 30th Sep. 97 are good - but not exceptionally so. Revenue increased 34% to £40.7m, operating profit was up 40%, PBT was up 27% to £2.9m with EPS up a lower 14%. But c£6m of the increased revenue came from the Dec. 96 acquisition of **EPG Insurance Systems** (now part of Datasure) so organic growth is a much lower 15%.

Most of the increased profits comes from the **HR** division (Rebus HR and Peterborough Software) where profits went up 28% to £2.8m (out of the group total of £2.9m). Total revenues in this division were just over £20m (i.e. 50% of the group). The prime growth area was bureau and outsourcing. The **Insurance** division had an 88% rise in revenue to £12.5m (but only 13% was organic) and profit of £777K. **Computer Services** division grew 38% to £6.8m revenue but profits fell slightly. In the **New Markets** division, Saffron had £1.2m revenue and profits of £487K but Media Solutions lost c£350K "and is not expected to be profitable in the current year". Mobile Phone has also lost money and it looks like this is now to be abandoned.

CEO Peter Presland said "the results are good... and with the increasing trend towards the Group's revenue moving into H2... is confident of the current growth trends in our business".

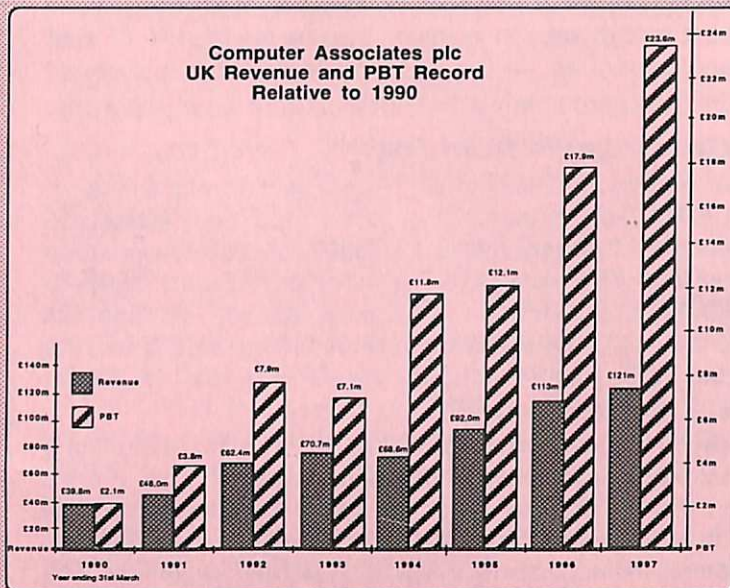
Comment - Rebus must be about the only quality IT services new float in the last few years not to be currently trading at a substantial premium. We have met and spoken with Presland on a number of occasions. We have argued strongly that Rebus has enough good business streams without distracting management attention by moving into anything new. Expand geographically if you wish, but please stick to the knitting. With a PSR of just 1 and a prospective P/E of 19 (about two thirds of the market average) Rebus' long suffering shareholders (well the new ones anyway) ought to be able to look forward to some better rewards in the future.

Deja vu? Some sadly ill informed readers might well say "Just a minute..I read all those comments in Paul Taylor's article in the FT on 19th Nov. 97". The others, like Paul, will say "I read that on 18th Nov. on www.holway.co.uk/hotnews".

Computer Associates - new European HQ

Following on from **Microsoft's** decision earlier this year to set up its first development facilities outside the US in the UK, we are delighted to learn that **Computer Associates** (the world and Europe's #2 independent supplier of software products), has decided to set up its European Headquarters in Slough. Very good news for the UK IT industry and for staff - they will want 500 or so. But this must further increase the upward pressure on staff rates.

By coincidence, we have just obtained CA's UK accounts which have this month been filed at Companies House. Revenue for the year to 31st Mar. 97 rose 7% to £121.1m with PBT increasing a much higher 32% to £23.6m - a margin approaching 20%. But we must caution all readers into putting too much credence in the profit figures of UK subsidiaries of US companies. Indeed considering recent acquisitions by the US parent (Legent in 95 and Cheyenne in 96) the UK organic revenue increase must be somewhat lower. Worldwide, Computer Associates International increases revenues in the year to Mar. 97 from \$3.5b to \$4b and made an excellent 24% margin with net income of \$964m.



Rich rewards at Workplace Technologies

Old established **Workplace Technologies** (three quarters of their business is the design, installation and configuration of data networks) was a 3i. backed £12m MBO from ICL in Sep. 95. In Nov. 97 they joined the rush of SCSI new issues when they placed 12.4m shares at 175p, valuing WT at £50.7m. Each of the three original directors involved in the MBO is due to receive £900K for their collective 10% stake which will leave them with c12%. 3i. (46% stake) and BZW Private Equity (26%) also realised the rich pickings from their original investment. At the 1997 interim stage, WT had revenues of £30.8m with a PBT of £1.8m.

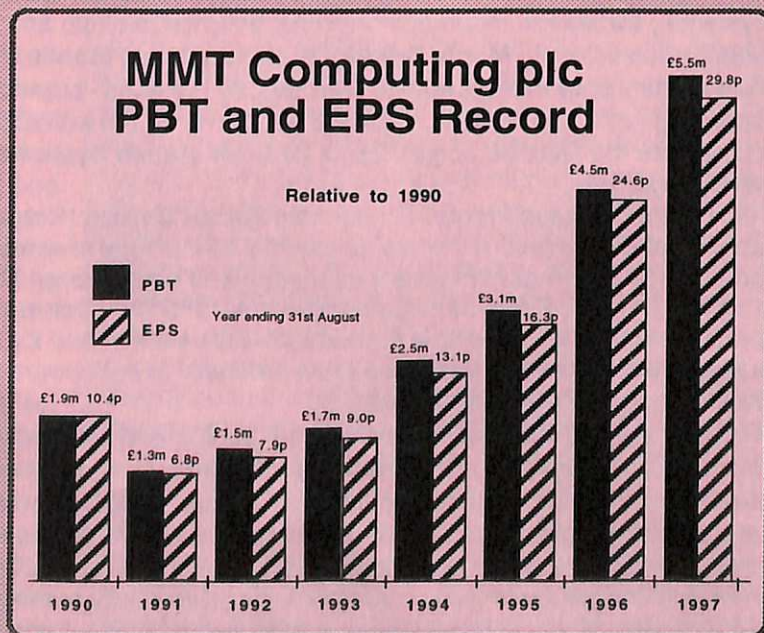
The shares got off to an excellent start with an immediate premium of over 30p but fell back slightly subsequently to end November on 189p - an 8% premium. We will be adding Workplace to our index next month.

MMT Computing overcomes its problems

We have normally written rave reviews on **MMT** but in the June edition *System House* we had to curb our delight when, at the interim stage, Chairman Mike Tillbrook warned of higher training costs combined with lower utilisation rates. But surprise, surprise, Mike Tillbrook now says that these trading problems "have been largely overcome and the company is in excellent shape". It would appear that MMT have solved the problems of passing higher staff costs on to customers. "Staff numbers are at record levels, utilisation rates are particularly good and our order book is healthy". MMT mainly provides development/application management services to blue chip customers on long term contracts, and in the past their utilisation rates have been about the highest in the industry.

The actual results for the year to 31st Aug. 97 show revenue up 46% to £24.6m, PBT up 23% to £5.5m with EPS up 21%. No more that we have come to expect really - we should never have doubted them. Of course over £4m of the revenue rise was due to the acquisitions of Cortex and Webbins in late 1996. Tillbrook went on to say that "In our fourteen years as a public company we have put together a track record of real growth matched by very few". We certainly agree and their profit margin record - consistently over 20% - is almost unrivalled in the industry. The company now has over £7m cash in the bank, so further acquisitions (or stake building) cannot be ruled out. MMT has had a canny knack of buying into companies (and selling) at the right time. They now have a 5.7% stake in Total and have built up their holding in Trace to 10.2%. These investments, with a net value of £952K on 31st Aug. 97, are already "showing useful paper profits". We should think so. Total is up 141% in 1997 and Trace up 114% so far in 1997. If you ever want a share tip, it's buy when Tillbrook buys. The problem is that he tends not to announce his share sales (and so far, he has always sold rather than make a bid) in advance!

MMT ended November up 6% at 668p - that's already a rise of 17% this year.



Quoted Companies - Results Service					Note: Shaded = Results announced this month.				
Admiral plc					Division Group plc				
REV	Interim - Jun 96 £ 43,009,000	Final - Dec 96 £ 90,819,000	Interim - Jun 97 £ 54,118,000	Comparison +25.8%	REV	Interim - Apr 96 £ 3,034,000	Final - Oct 96 £ 4,900,000	Interim - Apr 97 £ 2,387,000	Comparison -21.3%
PBT	£ 5,180,000	£ 11,243,000	£ 7,200,000	+39.0%	PBT	£ 2,283,000	£ 1,678,000	£ 956,000	Loss both
EPS	5.50p	11.60p	7.40p	+34.5%	EPS	-5.20p	-3.80p	-2.20p	Loss both
AFA Systems plc					Druid Group plc				
REV	Final - Dec 95 (5 mos) £ 0		Final - Dec 96 £ 364,000	Comparison n/a	REV	Final - Jun 96 £ 12,013,000		Final - Jun 97 £ 22,066,000	Comparison +83.7%
PBT	£ -121,000		£ 913,000	Loss both	PBT	£ 3,011,000		£ 5,004,000	+66.2%
EPS	-1.62p		-10.50p	Loss both	EPS	7.41p		13.94p	+88.1%
AIT Group plc					Eidos plc				
REV	Final - Mar 96 £ 7,495,000		Final - Mar 97 £ 10,875,000	Comparison +42.4%	REV	Interim - Sep 96 £ 20,492,000	Final - Mar 97 £ 75,531,000	Interim - Sep 97 £ 21,817,000	Comparison +6.5%
PBT	£ 1,122,000		£ 1,546,000	+37.8%	PBT	£ 12,497,000	£ 4,726,000	£ 18,331,000	Loss both
EPS	4.19p		5.68p	+35.6%	EPS	-100.70p	44.40p	-70.80p	Loss both
Anite Group plc					Electronic Data Processing plc				
REV	Final - Apr 96 £ 282,860,000		Final - Apr 97 £ 193,399,000	Comparison -26.4%	REV	Interim - Mar 96 £ 7,894,000	Final - Sep 96 £ 14,267,000	Interim - Mar 97 £ 6,490,000	Comparison -17.8%
PBT	£ 19,226,000		£ 5,377,000	Loss both	PBT	£ 1,505,000	£ 2,519,000	£ 803,000	-46.6%
EPS	-8.30p		-21.20p	Loss both	EPS	3.93p	6.64p	2.01p	-48.9%
Aran plc					F.I. Group plc				
REV	Final - Mar 96 £ 3,319,499		Final - Mar 97 £ 2,600,000	Comparison -21.7%	REV	Final - Apr 96 £ 78,824,000		Final - Apr 97 £ 98,800,000	Comparison +25.3%
PBT	£ 235,994		£ 400,000	Profit to loss	PBT	£ 3,763,000		£ 6,575,000	+74.7%
EPS	n/a		n/a	Profit to loss	EPS	7.70p		14.20p	+84.4%
Azlan Group plc					Flomerics Group plc				
REV	Interim - Sep 96 £ 126,464,000	Final - Mar 97 £ 292,900,000	Interim - Sep 97 £ 140,990,000	Comparison +11.5%	REV	Interim - Jun 96 £ 2,146,559	Final - Dec 96 £ 5,332,409	Interim - Jun 97 £ 2,335,584	Comparison +8.8%
PBT	£ 6,034,000	£ 14,100,000	£ 7,897,000	Profit to loss	PBT	£ 154,643	£ 77,885	£ 416,188	Loss both
EPS	15.00p	-44.30p	-23.10p	Profit to loss	EPS	n/a	12.30p	n/a	n/a
Cadcentre Group plc					Gresham Computing plc				
REV	Interim - Sep 96 £ 7,795,000	Final - Mar 97 £ 17,339,000	Interim - Sep 97 £ 8,249,000	Comparison +5.8%	REV	Interim - Apr 96 £ 4,579,000	Final - Oct 96 £ 9,271,000	Interim - Apr 97 £ 4,503,000	Comparison -1.7%
PBT	£ 204,000	£ 1,777,000	£ 841,000	+312.3%	PBT	£ 708,000	£ 1,682,000	£ 487,000	-31.2%
EPS	-0.05p	7.13p	3.32p	Loss to profit	EPS	1.32p	3.15p	0.88p	-33.3%
Capita Group plc					Harvey Nash Group plc				
REV	Interim - Jun 96 £ 50,067,000	Final - Dec 96 £ 111,869,000	Interim - Jun 97 £ 79,087,000	Comparison +57.9%	REV	Interim - Jul 96 £ 16,403,000	Final - Dec 96 £ 36,321,000	Interim - Jul 97 £ 23,767,000	Comparison +44.9%
PBT	£ 4,588,000	£ 12,292,000	£ 7,062,000	+53.9%	PBT	£ 1,788,000	£ 797,000	£ 2,111,000	+18.1%
EPS	1.83p	4.77p	2.49p	+36.1%	EPS	4.43p	1.80p	5.26p	+18.7%
Cedardata plc					Highams Systems Services Group plc				
REV	Final - Mar 96 £ 12,071,000		Final - Mar 97 £ 10,383,000	Comparison -14.1%	REV	Final - Mar 96 £ 13,227,496		Final - Mar 97 £ 16,394,589	Comparison +23.9%
PBT	£ 4,384,000		£ 1,589,000	-63.8%	PBT	£ 899,067		£ 878,707	-2.3%
EPS	9.50p		3.60p	-62.1%	EPS	7.20p		7.00p	-2.8%
CFS Group plc					ilion group plc (was Persona Group)				
REV	Interim - Jun 96 £ 1,751,000	Final - Dec 96 £ 4,569,000	Interim - Jun 97 £ 3,702,000	Comparison +111.4%	REV	Interim - Jun 96 £ 65,164,000	Final - Dec 96 £ 146,875,000	Interim - Jun 97 £ 88,389,000	Comparison +35.6%
PBT	£ 26,000	£ 552,000	£ 252,000	+869.2%	PBT	£ 2,707,000	£ 6,009,000	£ 4,030,000	+48.9%
EPS	1.60p	6.40p	2.50p	+56.3%	EPS	7.80p	17.20p	11.00p	+41.0%
Chemical Design Holdings plc					INSTEM plc				
REV	Interim - Jun 96 £ 634,000	Final - Dec 96 £ 1,866,000	Interim - Jun 97 £ 1,079,000	Comparison +70.2%	REV	Interim - Jun 96 £ 10,740,000	Final - Dec 96 £ 22,947,000	Interim - Jun 97 £ 11,260,000	Comparison +4.8%
PBT	£ -161,000	£ 165,000	£ 79,000	Loss both	PBT	£ 402,000	£ 1,321,000	£ 538,000	+33.8%
EPS	-2.58p	-2.93p	-1.21p	Loss both	EPS	5.80p	18.80p	7.70p	+32.8%
Clinical Computing plc					Intelligent Environments Group plc				
REV	Final - Dec 95 £ 2,187,131		Final - Dec 96 £ 1,979,690	Comparison -9.5%	REV	Interim - Jun 96 £ 2,028,000	Final - Dec 96 £ 3,476,554	Interim - Jun 97 £ 2,074,000	Comparison +2.3%
PBT	£ 714,879		£ 2,079,530	Loss both	PBT	£ 35,000	£ 1,379,256	£ 2,046,000	Profit to loss
EPS	-4.40p		-12.30p	Loss both	EPS	0.20p	-7.10p	-9.20p	Profit to loss
CMG plc					IS Solutions plc				
REV	Interim - Jun 96 £ 116,616,000	Final - Dec 96 £ 245,159,000	Interim - Jun 97 £ 140,704,000	Comparison +20.7%	REV	Final - Dec 95 £ 7,627,038		Final - Dec 96 £ 7,671,000	Comparison +0.6%
PBT	£ 11,340,000	£ 27,522,000	£ 15,117,000	+33.3%	PBT	£ 38,084		£ 219,000	+475.0%
EPS	11.40p	27.40p	14.90p	+30.7%	EPS	n/a		n/a	n/a
Coda Group plc					JBA Holdings plc				
REV	Interim - Apr 96 £ 15,264,000	Final - Oct 96 £ 33,889,000	Interim - Apr 97 £ 19,982,000	Comparison +30.8%	REV	Interim - Jun 96 £ 66,039,000	Final - Dec 96 £ 161,810,000	Interim - Jun 97 £ 88,102,000	Comparison +33.4%
PBT	£ 3,688,000	£ 4,899,000	£ 60,000	Loss to profit	PBT	£ 2,421,000	£ 11,259,000	£ 1,297,000	Loss both
EPS	-13.90p	-18.80p	0.20p	Loss to profit	EPS	-4.03p	18.26p	-2.56p	Loss both
Comino plc					Kalamazoo Computer Group plc				
REV	Interim - Sep 96 £ 3,258,000	Final - Mar 97 £ 7,792,000	Interim - Sep 97 £ 5,887,000	Comparison +56.1%	REV	Final - Mar 96 £ 66,665,000		Final - Mar 97 £ 77,776,000	Comparison +16.7%
PBT	£ 594,000	£ 1,420,000	£ 830,000	+39.7%	PBT	£ 5,882,000		£ 3,882,000	-34.0%
EPS	4.25p	9.95p	4.89p	+15.1%	EPS	10.20p		6.80p	-33.3%
Compel Group plc					Kewill Systems plc				
REV	Final - Jun 96 £ 85,620,000		Final - Jun 97 £ 111,792,000	Comparison +30.6%	REV	Interim - Sep 96 £ 19,830,000	Final - Mar 97 £ 41,348,000	Interim - Sep 97 £ 19,334,000	Comparison -2.5%
PBT	£ 3,235,000		£ 5,057,000	+56.3%	PBT	£ 3,243,000	£ 7,425,000	£ 3,580,000	+10.4%
EPS	12.50p		16.20p	+29.6%	EPS	17.50p	40.50p	18.80p	+7.4%
CRT Group plc					Logica plc				
REV	Final - Apr 96 £ 103,282,000		Final - Apr 97 £ 134,334,000	Comparison +30.1%	REV	Final - Jun 96 £ 284,810,000		Final - Jun 97 £ 338,465,000	Comparison +18.8%
PBT	£ 6,515,000		£ 12,056,000	+85.0%	PBT	£ 24,710,000		£ 28,148,000	+13.9%
EPS	5.70p		6.86p	+20.4%	EPS	27.10p		31.00p	+14.4%
DCS Group plc					London Bridge Software Holdings plc				
REV	Interim - Jun 96 £ 16,147,000	Final (6 mos) Dec 96 £ 19,095,000	Interim - Jun 97 £ 23,742,000	Comparison +47.0%	REV	Interim - Jun 96 £ 2,013,000	Final - Dec 96 £ 6,306,376	Interim - Jun 97 £ 4,095,000	Comparison +103.4%
PBT	£ 1,162,000	£ 1,870,000	£ 2,036,000	+75.2%	PBT	£ 501,000	£ 2,499,071	£ 953,000	+90.2%
EPS	4.07p	6.21p	6.48p	+59.2%	EPS	1.67p	8.26p	2.66p	+59.3%
DRS Data & Research Services plc					Lorien plc				
REV	Interim - Jul 96 £ 2,918,000	Final - Dec 96 £ 4,822,000	Interim - Jul 97 £ 4,268,000	Comparison +46.3%	REV	Interim - May 96 £ 17,997,000	Final - Nov 96 £ 45,706,000	Interim - May 97 £ 52,864,000	Comparison +193.7%
PBT	£ 363,000	£ 1,734,000	£ 43,000	Loss to profit	PBT	£ 600,000	£ 1,481,000	£ 889,000	+48.2%
EPS	-0.72p	-3.43p	0.10p	Loss to profit	EPS	7.10p	11.80p	1.15p	-83.8%
Delphi Group plc					Lynx Holdings plc				
REV	Interim - Jun 96 £ 100,174,000	Final - Dec 96 £ 210,835,000	Interim - Jun 97 £ 133,413,000	Comparison +33.2%	REV	Final - Sep 96 £ 87,644,000		Final - Sep 97 £ 120,752,000	Comparison +37.8%
PBT	£ 5,700,000	£ 12,302,000	£ 7,000,000	+22.8%	PBT	£ 6,953,000		£ 9,805,000	+41.0%
EPS	15.10p	33.05p	16.60p	+9.9%	EPS	5.36p		6.83p	+27.4%
Diagonal plc					M.A.I.D. plc				
REV	Interim - Jun 96 £ 12,826,000	Final - Nov 96 £ 28,328,000	Interim - Jun 97 £ 17,847,000	Comparison +41.4%	REV	Interim - Jun 96 £ 9,584,000	Final - Dec 96 £ 21,443,000	Interim - Jun 97 £ 14,037,000	Comparison +46.5%
PBT	£ 781,000	£ 2,007,000	£ 1,072,000	+37.3%	PBT	£ 3,284,000	£ 7,034,000	£ 2,013,000	Loss to profit
EPS	2.70p	7.10p	3.80p	+40.7%	EPS	-3.68p	-7.82p	0.88p	Loss to profit

Quoted Companies - Results Service

Note: Shaded = Results announced this month.

MMT Computing plc				Rebus Group plc					
HEV	Final - Aug 96	Final - Aug 97	Comparison	HEV	Interim - Sep 96	Final - Mar 97	Interim - Sep 97	Comparison	
PBT	£ 18,851,201	£ 24,639,075	+46.1%	PBT	£ 30,255,000	£ 55,436,000	£ 40,876,000	+34.4%	
EPS	£ 4,531,686	£ 5,554,611	+22.6%	PBT	£ 2,313,000	£ 5,808,000	£ 2,941,000	+27.2%	
	24.60p	29.80p	+21.1%	EPS	1.72p	4.61p	1.96p	+14.0%	
M-R Group plc				Recognition Systems Group plc					
HEV	Final - Jun 96	Final - Jun 97	Comparison	HEV	Interim - Mar 96	Final - Sep 96	Interim - Mar 97	Comparison	
PBT	£ 39,361,000	£ 39,430,000	+0.2%	PBT	£ 235,000	£ 324,000	£ 326,000	+33.1%	
EPS	£ 4,810,000	£ 5,604,000	+16.5%	EPS	£ 292,000	£ 1,268,000	£ 1,128,000	Loss both	
	5.70p	7.30p	+28.1%		-1.40p	-5.50p	-4.20p	Loss both	
MDIS Group plc				Riva Group plc					
HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
PBT	£ 60,540,000	£ 116,995,000	£ 54,377,000	-10.2%	PBT	£ 32,348,000	£ 64,438,000	£ 32,661,000	+1.0%
EPS	£ 9,213,000	£ 49,545,000	£ 3,910,000	Loss to profit	PBT	£ 905,000	£ 518,000	£ 190,000	Loss to profit
	-9.39p	-48.94p	3.82p	Loss to profit	EPS	-3.00p	0.90p	0.30p	Loss to profit
Macro 4 plc				Roife & Nolan plc					
HEV	Final - Jun 96	Final - Jun 97	Comparison	HEV	Final - Feb 96	Final - Feb 97	Comparison		
PBT	£ 25,317,000	£ 23,448,000	-7.4%	PBT	£ 17,128,000	£ 20,289,000	+18.5%		
EPS	£ 12,147,000	£ 10,300,000	-15.2%	PBT	£ 2,517,000	£ 2,758,000	+9.6%		
	37.50p	33.80p	-9.9%	EPS	12.33p	14.50p	+17.6%		
Micro Focus plc				Romtec plc					
HEV	Interim - Jul 96	Final - Jan 97	Interim - Jul 97	Comparison	HEV	Interim - Jul 96	Final - Jan 97	Interim - Jul 97	Comparison
PBT	£ 34,140,000	£ 79,089,000	£ 41,349,000	+21.1%	PBT	£ 1,980,000	£ 4,734,877	£ 2,481,000	+25.2%
EPS	£ 9,463,000	£ 5,809,000	£ 5,171,000	Loss to profit	PBT	£ 128,000	£ 326,125	£ 130,000	+1.6%
	-62.20p	-48.00p	22.70p	Loss to profit	EPS	1.70p	4.30p	1.90p	+11.8%
Microgen Holdings plc				Royalblue Group plc					
HEV	Interim - Apr 96	Final - Oct 96	Interim - Apr 97	Comparison	HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
PBT	£ 38,291,000	£ 73,391,000	£ 34,052,000	-11.1%	PBT	£ 5,383,000	£ 11,879,000	£ 8,892,000	+85.2%
EPS	£ 4,875,000	£ 8,783,000	£ 4,211,000	-13.6%	PBT	£ 1,006,000	£ 2,016,000	£ 2,211,000	+78.0%
	8.00p	15.10p	6.90p	-13.8%	EPS	2.39p	4.66p	-0.35p	Profit to loss
Microvitec plc				Sage Group plc					
HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	HEV	Interim - Mar 96	Final - Sep 96	Interim - Mar 97	Comparison
PBT	£ 33,840,000	£ 65,176,000	£ 20,892,000	-38.3%	PBT	£ 71,836,000	£ 136,236,000	£ 73,554,000	+2.4%
EPS	£ 1,610,000	£ 461,000	£ 424,000	Profit to loss	PBT	£ 16,116,000	£ 30,053,000	£ 19,286,000	+19.7%
	1.40p	0.21p	0.10p	-92.9%	EPS	9.92p	18.50p	12.03p	+21.3%
Misys plc				Sanderson Electronics plc					
HEV	Final - May 96	Final - May 97	Comparison	HEV	Interim - Mar 96	Final - Sep 96	Interim - Mar 97	Comparison	
PBT	£ 279,887,000	£ 325,470,000	+16.3%	PBT	£ 30,583,000	£ 61,385,000	£ 33,408,000	+9.2%	
EPS	£ 50,437,000	£ 62,533,000	+24.0%	PBT	£ 3,317,000	£ 6,201,000	£ 3,504,000	+5.6%	
	44.00p	53.90p	+22.5%	EPS	5.30p	10.10p	5.90p	+11.3%	
Mondas plc				SBS Group Holdings plc					
HEV	Final - Apr 96	Final - Apr 97	Comparison	HEV	Final - Aug 96	Final - Aug 96	Comparison		
PBT	n/a	£ 56,609	n/a	PBT	£ 13,293,162	£ 15,187,558	+14.3%		
EPS	n/a	£ 421,192	n/a	PBT	£ 341,562	£ 125,661	-63.2%		
	n/a	-10.50p	n/a	EPS	n/a	n/a	n/a		
Moorepay Group plc				Science Systems (Holdings) plc					
HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	HEV	Final - Dec 96	Final - Dec 96	Comparison	
PBT	£ 2,717,248	£ 5,118,415	£ 2,731,603	+0.5%	PBT	£ 12,355,133	£ 14,300,000	+15.7%	
EPS	£ 851,417	£ 1,327,894	£ 886,148	+4.1%	PBT	£ 1,443,739	£ 1,200,000	-16.9%	
	5.37p	11.56p	5.69p	+6.0%	EPS	n/a	n/a	n/a	
MSB International plc				Sema Group plc					
HEV	Interim - Jul 96	Final - Jan 97	Interim - Jul 97	Comparison	HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
PBT	£ 29,981,000	£ 69,755,000	£ 54,893,000	+83.2%	PBT	£ 426,919,000	£ 928,985,000	£ 559,539,000	+31.1%
EPS	£ 2,166,000	£ 5,431,000	£ 3,714,000	+71.5%	PBT	£ 19,754,000	£ 50,019,000	£ 26,214,000	+32.7%
	7.00p	17.60p	12.10p	+72.9%	EPS	12.91p	30.94p	16.03p	+24.2%
NSB Retail Systems plc				Sherwood International plc					
HEV	Final - Dec 96	Final - Dec 96	Comparison	HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	
PBT	£ 1,490,000	£ 2,181,000	+45.0%	PBT	£ 11,801,000	£ 24,628,000	£ 13,069,000	+10.7%	
EPS	£ 422,000	£ 296,000	-29.9%	PBT	£ 705,000	£ 2,065,000	£ 1,025,000	+45.4%	
	n/a	n/a	n/a	EPS	5.60p	19.20p	7.90p	+41.1%	
OmniMedia plc				Skillsgroup plc					
HEV	Final - Dec 96	Final - Dec 96	Comparison	HEV	Interim - May 96	Final - Nov 96	Interim - May 97	Comparison	
PBT	£ 275,275	£ 1,003,861	+264.7%	PBT	£ 179,200,000	£ 344,337,000	£ 187,600,000	+1.3%	
EPS	£ 1,684,980	£ 2,314,967	Loss both	PBT	£ 6,500,000	£ 14,277,000	£ 6,500,000	+0.0%	
	-9.97p	-10.10p	Loss both	EPS	5.80p	12.70p	5.80p	+0.0%	
On Demand Information plc				Spargo Consulting plc					
HEV	Interim - Jan 96	Final - Jul 96	Interim - Jan 97	Comparison	HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
PBT	£ 5,677,000	£ 11,429,000	£ 5,601,000	-1.3%	PBT	£ 2,040,000	£ 7,853,000	£ 4,228,000	+4.7%
EPS	£ 1,284,000	£ 2,900,000	£ 2,291,000	Loss both	PBT	£ 602,000	£ 1,204,000	£ 625,000	+3.8%
	-2.50p	-5.60p	-4.20p	Loss both	EPS	3.10p	6.17p	3.25p	+4.8%
Oxford Molecular plc				Staffware plc					
HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison
PBT	£ 4,350,000	£ 9,789,000	£ 6,188,000	+41.8%	PBT	£ 4,044,061	£ 10,009,325	£ 7,701,192	+90.4%
EPS	£ 950,000	£ 1,849,000	£ 677,000	Loss both	PBT	£ 159,812	£ 873,879	£ 549,023	+243.5%
	-1.70p	-3.30p	-1.10p	Loss both	EPS	0.40p	5.60p	3.30p	+725.0%
Parity plc				Superscape VR plc					
HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	HEV	Final - Jul 96	Final - Jul 97	Comparison	
PBT	£ 76,363,000	£ 182,091,000	£ 90,625,000	+18.7%	PBT	£ 3,888,000	£ 3,108,000	-20.1%	
EPS	£ 4,303,000	£ 10,060,000	£ 5,678,000	+32.0%	PBT	£ 2,873,000	£ 5,961,000	Loss both	
	6.75p	15.81p	8.90p	+31.9%	EPS	-37.90p	-69.60p	Loss both	
Pegasus Group plc				Systems Integrated Research plc					
HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	HEV	Interim - Nov 96	Final - May 96	Interim - Nov 96	Comparison
PBT	£ 3,729,000	£ 7,974,000	£ 5,587,000	+49.3%	PBT	n/a	£ 1,248,000	£ 507,000	n/a
EPS	£ 511,000	£ 1,160,000	£ 810,000	+58.5%	PBT	n/a	£ 642,000	£ 1,194,000	n/a
	6.50p	15.40p	12.80p	+96.9%	EPS	n/a	-5.80p	-9.10p	n/a
PhoneLink plc				Total Systems plc					
HEV	Final - Mar 96	Final - Mar 97	Comparison	HEV	Final - Mar 96	Final - Mar 97	Comparison		
PBT	£ 2,358,000	£ 4,316,000	+81.0%	PBT	£ 2,892,802	£ 3,279,609	+13.4%		
EPS	£ 6,711,000	£ 6,173,000	Loss both	PBT	£ 222,329	£ 412,545	+85.6%		
	-17.30p	-12.90p	Loss both	EPS	1.60p	2.76p	+72.5%		
Proteus International plc				Trace Computers plc					
HEV	Final - Mar 96	Final - Mar 97	Comparison	HEV	Final - May 96	Final - May 97	Comparison		
PBT	£ 1,063,000	£ 573,000	-46.1%	PBT	£ 20,534,553	£ 17,271,000	-15.3%		
EPS	£ 5,395,000	£ 3,824,000	Loss both	PBT	£ 5,135,296	£ 635,000	Loss to profit		
	-14.53p	-7.31p	Loss both	EPS	-35.88p	3.35p	Loss to profit		
Quality Software Products Holdings plc				Triad Group plc					
HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	HEV	Final - Mar 96	Final - Mar 97	Comparison	
PBT	£ 11,797,000	£ 25,360,189	£ 13,431,000	+13.9%	PBT	£ 11,680,000	£ 18,827,000	+61.2%	
EPS	£ 1,117,000	£ 28,480	£ 180,000	Loss to profit	PBT	£ 2,131,000	£ 2,656,000	+24.6%	
	-8.60p	0.20p	1.40p	Loss to profit	EPS	7.09p	7.25p	+2.3%	
RM plc				Vega Group plc					
HEV	Final - Sep 96	Final - Sep 97	Comparison	HEV	Final - Apr 96	Final - Apr 97	Comparison		
PBT	£ 89,032,000	£ 110,170,000	+11.2%	PBT	£ 16,032,000	£ 17,977,000	+12.1%		
EPS	£ 6,806,000	£ 8,018,000	+17.8%	PBT	£ 3,452,000	£ 3,261,000	-5.5%		
	25.10p	30.80p	+22.7%	EPS	16.16p	13.79p	-14.7%		
Radius plc				Xavier Computer Group plc					
HEV	Interim - Jun 96	Final - Dec 96	Interim - Jun 97	Comparison	HEV	Period - Mar 96	Final - Mar 97	Comparison	
PBT	£ 13,934,000	£ 27,267,000	£ 13,288,000	-4.6%	PBT	£ 487,000	£ 8,961,457	not comparable	
EPS	£ 1,006,000	£ 1,591,000	£ 805,000	-20.0%	PBT	£ 86,000	£ 582,000	Loss to profit	
	2.40p	4.05p	1.93p	-19.6%	EPS	-0.13p	0.62p	Loss to profit	
Rage Software plc				Zergo Holdings plc					
HEV	Final - Jun 96	Final - Jun 97	Comparison	HEV	Final - Apr 96	Final - Apr 97	Comparison		
PBT	£ 8,504,000	£ 7,758,000	-8.7%	PBT	£ 8,483,877	£ 10,398,877	+22.6%		
EPS	£ 3,224,000	£ 15,430,000	Loss both	PBT	£ 214,693	£ 725,736	Loss to profit		
	-1.34p	-6.30p	Loss both	EPS	-5.10p	3.40p	Loss to profit		
Real Time Control plc									
HEV	Final - Mar 96	Final - Mar 97	Comparison						
PBT	£ 11,903,000	£ 12,565,000	+5.6%						
EPS	£ 2,207,000	£ 2,547,000	+15.4%						
	20.80p	25.50p	+22.6%						

AIT, a new main market float at 150p in Jun. 97, has boosted PBT by 27% to £958K in the six months to 30th Sep. 97. The shares ended Nov. on 178p.

UK M&A

London based services and maintenance group **Highway Business Systems** has been put into receivership.

MAID's shareholders at the extraordinary AGM have approved the purchase of US **Knight-Ridder** for c£286m. Dan Wagner has wasted no time in restructuring **Dialog Corp.** (the new name) as he has now laid off 340 staff, mainly in the US. Since the deal another 100 staff have quit. This action is also seen as an attempt to halt the share price fall - down 18% to 177p in Nov.

Gresham Computing has acquired **CirCa Business Systems** for an initial £475K plus 1m new shares and up to 2m further shares on future profits and sales to Apr. 98. On the current share price, this make a maximum payout of c£1.27m. CirCa had 1997 revenue of £2.7m but made a loss of £109K.

Eidos (games developer) has signed a JV agreement with **Opticom** to develop a device to store and operate computer games software. Eidos is paying Opticom £5m for 50% of the JV. But EIDOS faces problems with the distribution in time for Christmas of the sequel to its best selling game - Tomb Raider 2. See also report p8.

Kewill has followed up last month's acquisition of Alpha-Numeric with the purchase this month of **ElectricMail** (Internet Connectivity, E-Mail and Web services) for £3m - part cash, part shares. ElectricMail had 1996 revenues of £1.8m but made a small loss.

Hays plc has acquired document management services company **DEI Group** for an initial £17m plus up to a further £3.5m on profits to 31st Dec. 2000.

Cedardata has signed an option, for a consideration of £300K, to acquire **Qualtech** (measurement software for use in call centres). Exercising the option could cost a maximum of £7m depending on profits to 2000. In addition a similar option has been signed (maximum £3m) in **Leicester Systems** which owns the IPRs to the Qualtech software outside the UK.

In Dec. 95 **PCL** sold its FM business to SHL Systemhouse for £3m. Now CEO Trevor Clarke has sold the remaining business to **M-R Group** for £4.5m cash. PCL's latest 1996 accounts showed revenue of £13.2m and a PBT of £339K.

Retinal Displays Inc. has now completed its acquisition of failed **Virtuality** in what is effectively an MBO by former CEO Jonathan Waldern. Waldern is now based in the US where he is President and CEO of Retinal.

DCS has expanded its European automotive network with the acquisition of **Gfa exdata Computersysteme** and **AUTAC** from Swiss **AC Group**. Total net consideration is DM8.5m (£2.9m) after allowing for cash held in these businesses of DM2.5m (£900K). 1996 turnover of Gfa and AUTAC was c£5.6m with a PBT of £92K. The market initially liked the news but the shares fell slightly in the month to end on 260p.

BZW Private Equity has realised its investment in **Protek IT Services** via a sale to an unnamed US VC for £10m. This has given BZW a fourfold return on its £2.4m investment in 1996. Geoff Butcher remains as MD.

Evidently way back in Jul. 97, **Tivoli Systems Inc.** (relational database applications - Oracle, Sybase, Informix, DB2 and Microsoft SQL Server) acquired UK-based **DBMX**. In Nov. 95, DBMX received equal equity stakes from Tivoli and **Oracle** and it was Oracle's stake that they have now acquired.

Torex now an SCSI company

Torex plc has acquired **Alcotech Computers** for £333K. Alcotech trades as Medical Care Systems and specialises in clinical and admin. systems for GPs. Alcotech had revenue of £4m in 1996 and made a pretax loss of £297K. Torex will combine the new acquisition with its own **Ambridge Medical Systems**. Further strategic IT acquisitions are planned.

Torex has recently sold its remaining tool hire activities for a gross consideration of £10m to **Jewsons**. In addition Jewsons' parent company, Meyer International has signed a separate agreement with Torex worth £1.75m to supply computer services and equipment.

Torex will now be included in our SCSI Index when we obtain accounts showing just their SCSI activities.

Peter Chadwick acquired

NASDAQ quoted **Cambridge Technology Partners**, a US IT specialist, is to acquire UK-based consultancy **Peter Chadwick Holdings** in a paper based deal worth about \$130m (c£76.9m). That makes it one of the larger acquisitions involving a UK SCSI company in 1997.

Peter Chadwick was founded in 1987 and claims to be a leader in the implementation of operational strategies and performance improvement programs (whatever this means). The average contract size exceeds \$1m. Their 1997 revenue was £30.7m with a PBT of £4.1m and they have c325 employees throughout Europe and the US.

Note: **Broadview Associates** acted for Peter Chadwick.

Strong performance from SNI

Siemens Nixdorf Informationsysteme (SNI), part of the giant German Siemens group saw its sales rise 14% to \$8.9b with PBT rising over 100% to \$61m in the year to 30th Sep. 97. This performance was particularly impressive as the domestic market in Germany is still difficult.

UK revenues grew by 40% to £354m with "profits" of £7m. However, at their own admission, only about 30% or £100m of this UK revenue comes from services - and a goodly part of that will be hardware maintenance.

Apparently the aim is to grow services to 50% of revenues.

Siemens AG has also reorganised in an attempt to increase its already claimed 20% share in the estimated £1b UK healthcare IT market. A new company, **Siemens Healthcare Services** has been set up to amalgamate all the previous healthcare activities. SHS will offer "Managed Technology Services" to the c415 NHS Trust hospitals in an effort to cut down the massive flow of paper.

Rights issue flop at Recognition

We thought the 21p, 4-for-11 rights issue was cheap but risky. Apparently we were not alone with our doubts. The take up was only 34% with the rest going to the sub-underwriters. Of course **Recognition** had already placed 5.8m of the 9.8m new shares with institutional investors. But even so this is a bit of a blow for Chairman David Bounds. The shares ended the month on..... 21p.

ICL buys!

It really makes a change to report on an **ICL** acquisition, rather than disposal. ICL, this month "in a multi million dollar deal" (?), has acquired the **Prosper Software** "interconnect settlement" product of **Fort Comm. Tech. Ltd.**

Mind you it can't have been too many multi millions as Prosper "in 1996 had a turnover approaching \$2m".

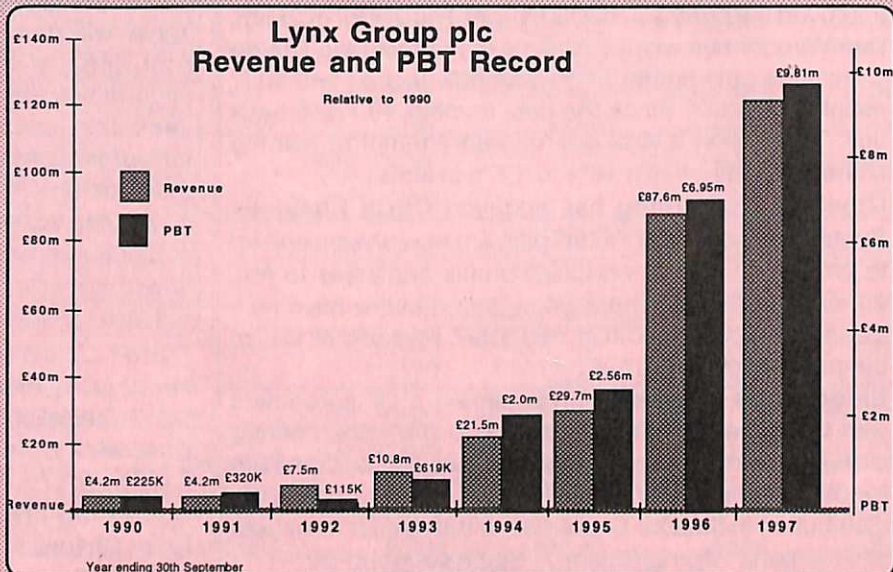
Still looking good at Lynx

Lynx Holdings (soon to be renamed Lynx Group) has announced results for the year to 30th Sep. 97. Revenue rose 38% to £120.7m, PBT increased 41% to £9.8m with EPS up 27%. Pretty good stuff and as Chairman Roger Pinnington commented "Since 1992 we have grown the business organically and by acquisition while ensuring sustained and consistent profits growth". Certainly our own records since 1992 prove this. In the five year period to date, profit has grown by an incredible annual average growth rate (AAGR) of 143% but the EPS AAGR for the same period can't quite match this at "only" 38%. But even that is very impressive for such an acquisitive company.

Acquisitions over the last few years include the £22m "reverse takeover" of Vistec in Oct. 95, Heywood & Partners (Mar. 95 for £4.5m), Quadra (Nov. 96, for up to c£3.3m), Spanish Tesoft (Mar. 96 for up to £6.4m) and the more recent purchase of Apex Computer for £10.2m. During this period they have also disposed of the non-core non-IT activities.

Their **Software and Systems** division accounted for £38m revenue, up 63%, and profits of £5.6m (up from £3.8m). Lynx has concentrated on the automotive, financial, commercial and communication sectors. Its **Computer Services** division provides products and services to both VARs and direct to major corporates and accounted for £85m revenue (up 30%) but not surprisingly a lower %age of the profits - £5.3m (an increase of 29%).

CEO Richard Last is of course "confident" but preferred to use the less sensitive phrase "extremely positive" when he talked to us about future prospects for Lynx. Further suitable acquisitions are actively being considered. The shares ended the month on 99p - a rise of just 1% in Nov. but 14% this year. The PSR is low at >1 as is the P/E of 15.



Select Software - back on track?

UK NASDAQer **Select Software** - component based modelling tools - has announced its results for Q397 to 30th September. Revenue was up a massive 98% to \$7.13m but losses were also up, from \$193K to \$359K in the period. This makes total revenue for the nine month period of \$19.47m (up 104%) and net losses of \$168K (up from losses of \$68K).

Although Chairman and CEO Stuart Frost is "pleased with the strong revenue growth" he commented that the bottom line has been adversely affected by increased expenditure on staff. "It is essential that we have the team and resources in place as a foundation for future growth".

But the share price at the end of November of \$7 is still only half of the Dec. 96 IPO listing price of \$14.

Good US results boosts Cadcentre

Cadcentre - "a leader in the international market for 3D computer systems which aid the design of process and power plants" increased rev. by 6% to £8.2m, PBT from just £204K to £841K and EPS went positive in the six months to 30th Sep. 97. Underlying software and services sales was up a higher 13%. "Good progress" was achieved in the UK revenue but European and the rest of the world revenues both declined. "We are continuing to watch the Far East economic situation very carefully". But the undoubted star was the US with growth up a strong 33% at £1.9m. Chairman Richard King said "Profit margins have improved substantially... Our continued success in the highly competitive market is particularly pleasing. We look forward to the fully year's results with confidence".

Cadcentre were a new issue in Nov. 96 at 200p. The shares ended November on 270p - a 35% premium to the new issue price.

It's only a (loss-making) game...

Blood spilt at Eidos - but sees the light over R&D

UK NASDAQer **Eidos** claims to be "Europe's largest publisher and developer of entertainment software" and has had a torrid time what with the resignation of auditors Coopers & Lybrand and a City share dealings probe.

Results for the six months ended 30th Sep. 97 were pretty disastrous too. On revenue up 7% at £21.8m, the loss before tax increased from £12.5m to a massive £18.3m. In part this was because "Eidos has recently adopted a major change in its accounting policy..effectively software development costs are to be expensed as incurred. This change represents the most prudent accounting treatment to be adopted by any comparable company in the industry". The loss therefore is after charging £16m R&D costs (1996 costs now written off were £12.9m). According to Chairman Ian Livingstone losses were partly due to the failure of two licensed products, Shadow Warrior and Blood. But CEO Charles Cornwall is "confident" and considers prospects "remain extremely encouraging". With Christmas coming up all hopes are on Tomb Raider II. The shares ended November on 655p - that's a fall of 9% this year alone.

Hope of profits at Rage Software?

Rage Software's (computer games) loss before tax surged from £3.2m to a staggering £15.4m in the year to 30th Jun. 97. The MBO at Software Creations (loss £10.4m) and the MBO at BCE Distributors, and six arcades were largely to blame. Chairman John Roberts thinks that in FY98, Rage will return to profit - although not in the first half at the interim stage. At this stage we are not convinced. The share price ended the month on just 4p - under a third of the 52 week high.

A month of minimal movement in any of the indices.

Spargo led the share gains with a 25% rise; thus getting back to its price a year back. **Skillsgroup** was up 25%. Many in the city (+ us!) believe that the transformation - particularly at QA and Acuma - has still not been fully reflected in the share price. **Logica** (+19% - see p11) and **M-R Group** (+16%) were the other stars.

Illion (-43% - p10), **Sanderson** (-32% - p10), **Microgen** (-26% - p10) all dropped on profits warnings. **OmniMedia** has the ignominy of falling to a share price of just 1p. **INSTEM** is no longer quoted after the MBO.

30-Nov-97		SCSI Index		2804.07	
		FTSE 100	4831.80		
		BDO AIM	1319.31		
		FTSE SmallCap	2272.15		
CSI Index - 1000 on 15th April 1989					
Changes in Indices		SCSI Index	FTSE 100	BDO AIM Index	FTSE Small Cap
Month (31/10/97 - 30/11/97)		-1.79%	-0.22%	-1.69%	-1.73%
From 15th Apr 89		+180.41%	+135.28%		
From 1st Jan 90		+204.76%	+104.56%		
From 1st Jan 91		+296.13%	+123.65%		
From 1st Jan 92		+168.37%	+93.81%		
From 1st Jan 93		+75.96%	+69.75%		+63.78%
From 1st Jan 94		+67.95%	+41.35%		+21.59%
From 1st Jan 95		+67.04%	+57.62%		+30.10%
From 1st Jan 96		+24.16%	+30.97%	2.90%	+17.03%
From 1st Jan 97		+4.73%	+17.32%	-2.68%	+4.08%

System House SCSI Share Prices and Capitalisation

	Share Price 30/11/97 (£p)	Capitalisation 30/11/97 (£m)	Historic P/E	PSR Ratio Cap./Rev.	SCSI Index 30/11/97	Share price % move since 31/10/97	Share price % move in 1997	Capitalisation move (£m) since 31/10/97	Capitalisation move (£m) in 1997
Admiral	£6.11	£386.20m	46.0	4.25	22083.69	4.44%	67.40%	£16.50m	£156.30m
AFA Systems	£1.13	£13.50m	Loss	37.50	937.50	0.00%	-19.35%	£0.00m	-£0.40m
AIT	£1.78	£36.00m	33.4	3.37	1183.33	2.90%	18.33%	£1.00m	£5.60m
Anite	£0.41	£97.40m	Loss	0.50	239.77	-4.65%	12.33%	-£4.70m	£10.90m
Azlan	£0.58	£61.20m	Loss	0.21	250.00	-11.54%	-89.87%	-£8.00m	-£139.70m
Cadcentre	£2.70	£44.80m	26.8	2.58	1350.00	-6.90%	5.68%	-£3.30m	£2.30m
Capita	£3.28	£627.20m	60.5	5.61	29504.50	5.99%	102.16%	£36.40m	£343.10m
Cedardata	£1.09	£34.40m	59.2	3.32	1033.33	0.00%	-56.60%	£0.00m	-£44.80m
CFS	£0.89	£6.55m	12.6	1.43	983.33	-1.12%	5.99%	-£0.07m	£0.37m
Chemical Design	£1.05	£6.93m	15.5	2.72	954.55	-12.50%	-27.59%	-£0.99m	-£2.51m
Clinical Computing	£0.32	£7.91m	Loss	3.99	254.03	-16.00%	5.00%	-£1.50m	£0.38m
CMG	£13.33	£854.10m	43.2	3.48	4594.83	-3.79%	58.63%	-£33.70m	£315.70m
Coda	£1.55	£43.20m	Loss	1.27	659.57	-11.68%	44.19%	-£5.60m	£13.30m
Compel	£3.00	£85.80m	18.3	0.77	2400.00	10.91%	69.97%	£10.60m	£58.90m
Comino	£1.28	£15.40m	10.8	1.98	980.77	-12.07%	-1.92%	-£2.10m	£1.05m
CRT Group	£3.43	£491.20m	50.0	3.66	3811.11	6.52%	37.20%	£10.10m	£150.00m
DCS Group	£2.60	£57.10m	20.4	1.87	4325.00	-1.14%	-3.89%	-£0.70m	£5.30m
Delphi Group	£6.60	£191.40m	18.2	0.91	2716.05	-4.76%	-9.90%	-£9.60m	-£19.60m
Diagonal	£5.22	£96.60m	51.7	3.41	1898.18	0.29%	89.82%	£0.20m	£47.70m
Dialog (was MAID)	£1.77	£265.30m	Loss	12.37	1609.09	-17.67%	-12.16%	£60.40m	£80.50m
Division Group	£0.39	£16.90m	Loss	3.45	962.50	-1.28%	-30.00%	-£0.30m	-£7.20m
DRS Data & Research	£0.24	£8.04m	Loss	1.67	213.64	-4.08%	-4.08%	-£0.34m	-£0.34m
Druid	£6.28	£143.70m	45.2	6.51	2281.82	-7.38%	84.56%	-£11.40m	£65.90m
EDP	£0.56	£14.50m	11.8	1.02	1699.33	0.91%	-19.57%	£0.10m	-£3.60m
Eidos	£6.55	£110.70m	29.7	1.47	6550.00	-6.43%	-9.34%	-£7.60m	£14.60m
FI Group	£7.42	£220.20m	51.8	2.23	3155.32	10.51%	30.43%	£20.90m	£51.40m
Flomerics	£1.30	£3.38m	63.7	0.63	1000.00	0.00%	-39.53%	£0.00m	-£2.13m
Gresham Computing	£0.27	£8.83m	10.0	0.95	290.32	5.88%	-48.57%	£0.49m	-£8.37m
Harvey Nash	£3.14	£87.40m	174.4	2.41	1791.43	8.10%	79.14%	£6.60m	£38.60m
Highams Systems	£1.20	£10.70m	16.7	0.65	1666.67	4.35%	-12.09%	£0.50m	-£1.40m
Illion (was Persona)	£1.57	£39.30m	7.7	0.27	978.13	-42.46%	-49.35%	-£29.00m	-£37.30m
INSTEM	£2.10	£9.86m	10.0	0.43	2100.00	2.44%	44.83%	£0.23m	£3.19m
Intelligent Environments	£0.21	£4.82m	Loss	1.39	218.09	-12.77%	-68.46%	-£0.70m	-£9.68m
I S Solutions	£1.48	£7.08m	49.9	0.92	1100.75	0.00%	10.07%	£0.07m	£0.69m
JBA Holdings	£9.80	£358.70m	48.6	2.22	6125.00	2.35%	84.91%	£8.30m	£178.00m
Kalamazoo	£0.70	£29.80m	10.1	0.38	1985.71	9.45%	-35.35%	£2.60m	-£1.20m
Kewill	£5.67	£73.10m	13.5	1.77	2239.13	3.94%	8.21%	£3.30m	£6.60m
Logica	£10.03	£732.80m	32.2	2.17	2746.58	18.64%	9.15%	£115.10m	£149.60m
London Bridge	£3.57	£103.40m	35.7	16.41	1782.50	-6.55%	78.25%	-£7.20m	£56.40m
Lorien	£4.08	£69.70m	60.4	1.52	4075.00	11.64%	21.28%	£7.30m	£31.40m
Lynx Holdings	£0.99	£102.10m	14.5	0.85	2475.00	1.02%	14.45%	£1.10m	£17.40m
M-R Group	£1.12	£62.20m	15.2	1.58	442.46	16.15%	31.18%	£8.60m	£14.80m
Macro 4	£3.40	£67.00m	10.1	2.86	1370.97	1.49%	-30.61%	£1.00m	-£29.50m
MDIS	£0.43	£89.60m	Loss	0.77	164.42	8.23%	29.55%	£6.80m	£55.00m
Micro Focus	£19.88	£308.10m	54.0	4.22	9601.45	-2.93%	104.90%	-£9.30m	£161.60m
Microgen	£0.75	£29.70m	5.4	0.40	320.51	-25.74%	-50.00%	-£10.30m	-£29.50m
Microvitec	£0.12	£9.24m	56.0	0.14	286.59	-11.32%	-58.77%	-£1.16m	-£15.16m
Misis	£16.70	£1,451.00m	31.0	4.46	4154.23	11.15%	49.57%	£149.00m	£500.90m
MMT Computing	£6.68	£79.40m	22.2	3.22	3973.21	6.12%	16.90%	£4.50m	£12.00m
Mondas	£0.73	£4.42m	Loss	77.54	966.67	-5.23%	-13.17%	-£0.25m	-£0.61m
Moorepay	£2.70	£29.20m	31.9	5.70	4556.52	-1.82%	35.00%	-£0.50m	£7.90m
MSB International	£5.13	£104.50m	22.6	1.50	2697.37	-8.89%	38.33%	-£10.30m	£29.20m
NSB Retail	£1.89	£18.33m	65.0	8.49	1643.48	12.84%	64.35%	£2.03m	£7.13m
OmniMedia	£0.01	£0.31m	Loss	0.31	13.33	-20.00%	-89.47%	£0.00m	-£2.03m
On Demand	£0.07	£3.59m	Loss	0.31	83.33	0.00%	-85.56%	£0.00m	-£21.21m
Oxford Molecular	£2.02	£146.00m	Loss	14.91	2525.00	-15.83%	-43.26%	-£27.50m	-£70.80m
Parity	£6.26	£272.30m	34.9	1.68	34777.65	9.06%	41.47%	£25.50m	£84.20m
Pegasus	£2.39	£16.70m	10.1	2.11	651.23	-1.85%	-36.10%	-£0.30m	-£6.90m
Phonelink	£0.33	£15.90m	Loss	3.69	212.90	-20.48%	-45.90%	-£4.10m	-£13.30m
Proteus	£0.39	£21.40m	Loss	37.35	458.33	4.05%	2.67%	£0.90m	£0.80m
Quality Software	£2.35	£32.00m	23.0	1.26	618.42	-1.05%	15.20%	-£0.30m	£5.50m
Radius	£0.36	£9.94m	9.9	0.36	257.25	-18.39%	-43.65%	-£2.26m	-£7.66m
Rage	£0.04	£10.40m	Loss	1.54	163.46	0.00%	-63.04%	£0.00m	-£17.50m
Real Time Control	£3.34	£23.30m	13.1	1.85	6806.12	6.38%	43.44%	£1.40m	£7.00m
Rebus	£0.87	£80.50m	18.9	1.21	988.64	0.58%	20.00%	£0.50m	£27.70m
Recognition Systems	£0.21	£7.73m	Loss	24.16	300.00	7.69%	-64.10%	£2.47m	-£8.07m
Riva	£0.40	£12.20m	9.5	0.19	280.73	11.27%	68.09%	£1.20m	£5.10m
RM	£8.50	£151.30m	27.6	1.37	4857.14	-7.86%	37.10%	-£12.90m	£40.90m
Rolle & Nolan	£3.00	£39.90m	20.7	1.97	3571.43	0.00%	-17.24%	£0.00m	-£5.80m
Romtec	£1.05	£5.43m	22.4	1.15	1672.00	1.95%	29.81%	£0.10m	£1.24m
Royalblue	£2.23	£73.50m	41.4	6.29	1308.82	-7.48%	30.88%	-£5.90m	£26.80m
Sage Group	£7.62	£823.20m	36.9	6.04	29288.46	7.25%	43.68%	£55.70m	£254.50m
Sanderson Electronics	£0.64	£29.40m	6.0	0.48	1089.36	-32.28%	-57.33%	-£14.00m	-£38.30m
SBS Group	£1.42	£10.00m	24.9	0.66	1415.00	5.99%	41.50%	£0.52m	£2.95m
Science Systems	£1.66	£28.10m	24.4	1.97	1282.95	9.97%	28.29%	£2.50m	£6.20m
Sema Group	£13.18	£1,515.00m	39.1	1.63	4143.08	-1.68%	21.43%	-£26.00m	£308.00m
Sherwood	£3.65	£31.40m	17.0	1.27	3041.67	-2.67%	87.18%	-£280.80m	£14.60m
Skillsgroup	£1.58	£128.00m	12.4	0.37	706.28	24.51%	1.61%	£95.80m	£2.90m
Spargo Consulting	£1.50	£18.70m	23.7	2.38	1573.68	25.10%	2.75%	£3.80m	£0.50m
Staffware	£2.98	£36.00m	39.0	3.60	1322.22	6.25%	14.64%	£2.10m	£6.00m
Superscape	£1.18	£10.40m	Loss	3.34	595.96	-15.11%	-70.31%	-£1.80m	-£23.00m
Systems Integrated	£0.09	£1.21m	Loss	0.97	78.26	-10.00%	-48.57%	-£0.13m	-£1.14m
Total	£0.70	£7.07m	25.4	2.16	1320.75	-6.67%	141.38%	-£0.51m	£4.17m
Trace	£0.75	£10.80m	28.1	0.63	600.00	-3.23%	114.29%	-£0.40m	£5.87m
Triad	£2.48	£62.40m	34.2	3.31	1833.33	-11.13%	18.14%	-£7.80m	£9.70m
Vega Group	£2.08	£32.00m	14.9	1.78	1700.82	-7.78%	-22.43%	-£2.60m	-£9.10m
Xavier	£0.07	£4.20m	6.2	0.47	700.00	-15.15%	-36.36%	-£0.75m	-£1.55m
Zergo	£2.15	£19.80m	63.3	1.90	2205.13	-4.44%	-25.86%	-£0.90m	-£6.90m

Note: CSI Index set at 1000 on 15th April 1989. Any new entrants to the Stock Exchange are allocated an index of 1000 based on the issue price. The CSI Index is not weighted; a change in the share price of the largest company has the same effect as a similar change for the smallest company.

Another rash of profits warnings

In the Aug. 97 edition of *System House*, we reported on the unprecedented number of profits warnings in 1997. That was when we had counted *just 19. The tally now nears 30!* And remember that's out of just 90 quoted SCSi companies. This month we have added another half dozen including:

Profits warning from Radius

We are not the greatest fan of **Radius**. Their Chairman Michael Roberts made the statement "I look forward with **confidence**" his own. If that wasn't bad enough we used the headline "Radius going round and round in circles" about five years back and can't think of anything better to describe their performance since. This month Radius has announced that slower than anticipated sales in their retail division will result in lower profits for FY97 than the £1.59m achieved in 1996. The share price fell 18% in the month to 36p. But - you have probably guessed it - "despite the disappointing performance, the board remains **confident** regarding the long term prospects of the retail business". We just wish someone would put them out of their misery.

Profits warning from Sanderson

Sanderson's has similarities with Radius. They are both small companies trying to do too many things in too many sectors. Sanderson has 12 operating subsidiaries involved in about 40 different sectors, 15 office locations including Australia, New Zealand, East Asia and USA. Amazing considering they have revenues of only £60m.

This month Sanderson's shares fell sharply on their announcement that profits for this year would fall some £5m below forecasts of £7.6m as it pulled out of two UK product developments. Given the other activities, they will hardly miss just two! But the withdrawal will cost an exceptional £3.9m. But that's not all. Although the UK side "performed well with profits ahead of expectations", the Pacific Group business had fallen significantly below budget. Management here has since been changed.

We have also long questioned Sanderson's involvement in sponsoring both Southampton and Sheffield Wednesday - much to the annoyance of Chairman Paul Thompson who writes to us every time we mention it pointing out what good value for money this marketing exercise is. If we were a shareholder we might prefer the extra on the bottom line. Particularly as the shares ended Nov. down 32% on 64p.

Another profit warning from Microgen

COM bureau **Microgen** had issued a profits warning last July (due to "declining COM revenues") but it appears to have seriously underestimated the speed of this decline. They have now issued *another* warning saying that PBT will fall short of market expectations by over £1m to c£6.3m

- they made £8.8m PBT last year. The "continuing decline in COM business and a lower than expected contribution from the disposed Current Knowledge (CK) business" is blamed. CK was sold for £845K to **IKON Office Solutions**. It also sold its 49% stake in **Printpost** to **AnPost** for £241K. Both of these disposals show a book profit, Not surprisingly the shares have fallen again and ended Nov. on 75p - down 26% in the month and a total fall in 1997 to date of 50%.

Profits warning from ilion

Shares in **ilion** (better known as Persona) plummeted this month after their profits warning. The profit for 1997 will now be c£6m compared with the £8m expected (1996 PBT was £6.5m). "The major cause of the decline is a fall in UK margins. This is largely due to the exceptional market conditions caused by a major competitor with acknowledged financial problems"...obviously referring to Azlan (see Nov. 97 *System House*). Germany had also sustained larger losses than expected. Chairman Wayne Channon said the market disruption was "disappointing but only temporary".

The share price fell 30% on the day of the announcement and continued to fall further to end November down 42% in the month at 157p.

Azlan interim losses as expected

As **Azlan** had warned, for the six months to 4th Oct. 97, revenue rose 1.5% to £141m with a loss before tax of £7.9m (PBT £6m last time). This loss included £600K exceptional costs for legal and professional fees in respect of the renegotiation of the group's banking arrangements etc. Chairman & CEO Barrie Morgans is "disappointed. However following the conclusion of the investigation, the new management team believes that Azlan's new business plan and strategy provides the foundation for future growth". Although we remain deeply sceptical about Azlan, we are pleased that training - where capacity doubled in the UK and trebled across Europe - did particularly well.

Net debt was £26.4m compared with net cash of £7.7m in Apr. 97. The rights issue largely eliminated that debt. At 37p it was well received. Azlan shares ended Nov. 97 on 58p. A far cry from the 555p suspension price in June and the 760p high in Aug. 96.

Good maiden interims from Comino

Comino was floated on AIM last April at 130p. Their interim results for the six months to 30th Sep. 97 are really quite good. Revenue increased 56% to £5m, PBT was up 40% at £830K with EPS up a much lower 15%. "The group has established a solid platform from which it can now move forward and generate strong results" according to Chairman Mike Brook (of MBS and Azlan fame).

This month Comino has acquired the remaining 37% of Image Systems Europe (ISE) for 802K shares and £880K cash and loan notes "to cement the group's market lead in the application of specialist Workflow and Electronic Document Management Systems".

Comino shares fell 12% in the month (not helped by a stop loss sell trigger in Techinvest) to end on 128p - still below the flotation price.

The myriad activities of Sanderson Electronics plc

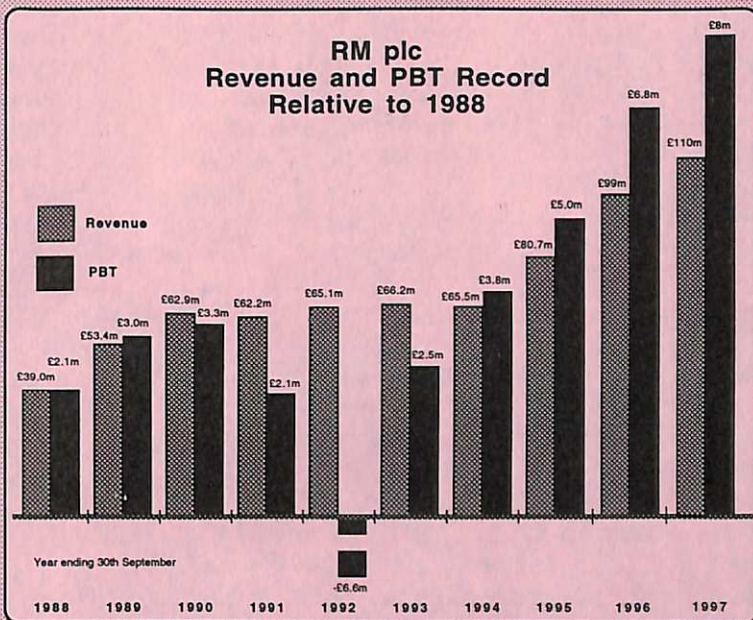
Commercial Systems Ltd (a JV with ICL)	<ul style="list-style-type: none"> Supply chain Management Media Systems Integration ICL Technology
Sanderson Computers Ltd	<ul style="list-style-type: none"> Manufacturing Airports Printing Industry Production Monitoring
Sanderson PSS Ltd	<ul style="list-style-type: none"> Local Govt. rev. Management Schools and colleges Consumer Protection Parking Enforcement
Sanderson Brookstreet Ltd	<ul style="list-style-type: none"> Financial management Finance and Distribution Document Image Processing Public Sector
Sanderson GA Ltd	<ul style="list-style-type: none"> Solicitors Healthcare Hotels Legal Departments
Sanderson CFL Ltd	<ul style="list-style-type: none"> Credit Management Direct Marketing and Mail Order Debt Collection and Recovery Public Sector
Sanderson NI Ltd	<ul style="list-style-type: none"> Northern Ireland markets Financial Management Computer Bureau and Data Preparation
Sanderson Cotswold Ltd	<ul style="list-style-type: none"> Processing Industry Food Industry Insurance Production Monitoring
Sanderson Insight Ltd	<ul style="list-style-type: none"> Workstations and Comms for Police Forces and others Police
Sanderson CBT Ltd	<ul style="list-style-type: none"> Computer based training English Language Training MSP 11 Training Oil Industry Training
Sanderson FCS Ltd	<ul style="list-style-type: none"> Vehicle Fleet Management
Alpha Microsystems (GB) Ltd	<ul style="list-style-type: none"> Wholesale distribution Cash & Carry
Sanderson Pacific Group	<ul style="list-style-type: none"> Sanderson Computers Pty Ltd - Australia Sanderson Logistics Pty Ltd - Australia Sanderson Health Pty Ltd - Australia Sanderson Computers Ltd - New Zealand Sanderson Computers Pte Ltd - Singapore Sanderson Computers Inc - USA Sanderson Computers Ltd - Hong Kong Sanderson Computers Malaysia Sdn Bhd Wacher Pty Ltd - Austral

Was this a profits warning from RM too?

Old established **RM** specialise in the supply of systems to the education market - everything from infant and primary schools through to universities. Initially a hardware manufacturer until their withdrawal around 1992 (when they made a loss), their results since then have been excellent. In the UK they are now #1 in the supply to primary schools with an estimated 45% share, #1 for colleges (but revenue here declined reflecting funding cutbacks) and #2 for universities. RM's largest market is in fact secondary schools, where revenue has risen 17% despite very tight budgets in this sector.

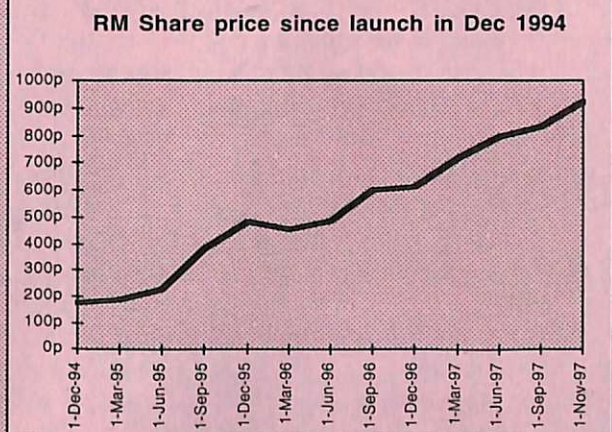
The latest results for the year to 30th Sep. 97 continue the successful trend. Revenue rose 11% to £110.2m. PBT was up 18% to £8m with EPS up even higher 23%. RM's profit margin also increased from 6.9% to 7.3%. Net cash fell nearly £3m but still stood at over £10.6m at the year end. Individual divisions include RM Learning Systems (revenue up from £2.1m to £4.5m and "contributed to profits for the first time"), and the Internet (revenue now £1.4m - up over double).

Chairman John Leighfield commented "RM achieved good results for the year against a background of challenging market conditions.... The most significant Government policy proposal is the National Grid for Learning and the Government has committed £100m of public funding to build it.... in order to take advantage of this funding, and to counter any increase in competitive activity, the Board has approved additional expenditure on product development and sales marketing". As this additional funding will



not be available until RM's H298, this will in effect mean that their H198 profit figure will be "significantly lower" than H197 as their additional expenditure will be in the first half. In fact no more than "break even" is likely. But the company is confident, that with the proposed large increase in education expenditure, the group is "well placed to benefit over the full year and in future years".

RM's founder, Mike Fischer has been CEO for 24 years, and he is now relinquishing this role in favour of present MD Richard Girling. Fischer will become President and a Non-Exec. and still holds RM shares worth over £20m. As you can see from the chart, since RM's flotation onto the Stock Market at 175p in Dec. 94 the shares been a star performer. They ended November down 8% at 850p - a fair way off their 52 week high of 953p. But the market virtually dismissed the "profit warning" as the shares actually rose on the day of the announcement.



Girling, in an interview with AFX News, was very bullish. RM is in a "very strong" position to fend of increased competition and is "looking forward to a very good full year". But other reports warned that on a P/E of 28, RM looked expensive. Indeed The Times (25th Nov. 97) warned that the extra publicity and funding going into IT in schools would bring in new competitors and that "RM could find itself being trampled underfoot by larger companies fighting for a share of the action". The Times, of course, failed to point out what an attractive acquisition target RM had now become...particularly now that Fischer has stepped down.

Good news from Logica

At **Logica's** AGM, Chairman Frank Barlow was in buoyant mood. "We have made a good start to the new financial year. First quarter results were ahead of budget and well ahead of last year on all key indicators".

We also found Martin Read to be bullish at our regular lunch with him this month. (OK, he did pay, but before you write the letters again, anyone who thinks they can buy Holway for the price of a lunch is clearly nuts).

The bullishness has infected the other brokers. UBS issued a research note headed "Absolutely undervalued" and Albert E Sharp reckons "Logica is the cheapest of the listed SI and outsourcing companies".

All this attention did wonders for the Logica share price which rose (actually recovered..as it is still somewhat off its high of 1041p) by 18% to 1003p this month.

A rash of new issues too

Despite the profits warnings, it looks as though Q497 will prove to be a bumper period for new SCSI floats. Apart from adding **Torex** (see p7), **Computerland** and **Workplace Technologies** (p4), the others include:

- Computer maintenance company, **CRC Group** (AIM - 90p) ended November on 113p, a 25% premium. CRC had revenues of £10.6m and a PBT of £974K in the year to 31st Dec. 96. But we will not be adding them to our index as they appear mainly to repair a variety of electronic products.
- **Delcam** (CAD/CAM systems for the design of products with complex shapes) (AIM - 260p valuing the company at £12m). The shares ended the month down 10% at 233p.
- **Tetra** (Main - 160p valuing them at £40.3m). £19.7m was raised but only £1.5m for the company. Tetra had rev. of £22.4m and "operating profits" of £2.8m in the year to 31st May 97. The shares ended Nov. on 174p.

Kewill - profit up on lower sales

Kewill's revenue fell 3% to £19.3m but PBT was up 10% to a record £3.6m. EPS increased 7% in the six months to 30th Sep. 97. Problems in Germany brought Kewill to its knees in the past. Yet again turnover reduced producing an operating loss of £100K (profit £600K last time). Also delays in developing the latest version of Microsoft software and the strength of sterling did not help matters.

Chairman Kevin Overstall said that their Design Division is being restructured but any profit improvement is not expected until the next financial year. However Kewill is now much less reliant on this division than it used to be and it now accounts for only 18% of total gross profit. The remainder of the business (enlarged by acquisitions) "continues to enjoy good prospects as it enters the traditionally stronger second half". The group "is well placed to achieve further growth".

At the half year end, Kewill had nearly £9m cash in the bank and they have now used some of this to acquire US **Exeter Software** for \$14m (£8.3m) cash and up to a further \$7m (£4.1m) on profits up to Nov. 99. Kewill is taking a five year US bank loan of \$13.5m (£8m) to fund the bulk of the consideration. Exeter had 1997 revenues of £5m and a PBT of £700K and they mainly supply warehouse management systems to US blue chips. This purchase will increase Kewill's warehouse systems share to c24% of total revenues.

Kewill's shares ended November on 567p - an 8% rise to date in 1997.

Goodbye to a \$2 billion UK SCSI company

So BT has accepted \$7 billion (£4.2b) for its 20% stake in MCI. **Syntegra's** plan to merge with MCI's SHL Systemhouse - and create the very first \$2 billion rev. UK-owned SCSI company - is obviously scuppered. This is a body blow for Syntegra. Sure, it has made some acquisitions overseas at last, but the organic growth record over the last few years has hardly been spectacular.

So what will happen now? Syntegra will no doubt brush all comments aside. But it will probably now just languish in the backwater again. We would like to see someone buy it (Logica would be a very good new foster parent) but think this is politically unlikely too.

Cap Gemini wins at British Steel

Cap Gemini has been awarded its largest UK outsourcing contract of £400m over 10 years by British Steel to support the bulk of BS' IT activities. Some 600+ staff will transfer. This follows the £100m/5 year contract awarded to CGS in Feb. 96 by British Steel when 300 staff transferred.

According to press comment, EDS was far from happy. They claim their offer to British Steel was for a more sophisticated service rather than CGS' more "simple service". But as CGS Director Alwyn Welch said "Clearly what we bid was what British Steel wanted".

Both CSC and EDS might also have been annoyed at the FT (13th Nov. 97) that "the contract was the UK's biggest private sector outsourcing deal to date". This is (well, we think) untrue and certainly was not what Cap Gemini claimed. For the record (according to our records) the British Aerospace/CSC deal was worth £1 billion/10 years when announced. EDS has two outsourcing deals with Rolls Royce - £300m and £600m (both over 10 years) - together worth c£90m p.a. After dismissing the SBC Warburg/Perot £133 p.a. deal and the Lucas/CSC deal - they have both been reduced for very different reasons since - the British Steel/Cap Gemini deal, if valued at £60m p.a. - would come a very worthy third.

We've heard of diversification, but....

Mark Goldberg MD of **MSB International** has sold 800,000 shares in MSB at £5 in order to buy a 10% stake in Crystal Palace FC - with an option of another 75%. However he plans to limit his personal investment to a "nominal" £3m as the option, if exercised, will be bought by a consortium. Goldberg also announced that he will sell no more shares in MSB for at least a year.

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